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Report Highlights:
Fueled by improving economic prospects, especially expected income growth, wheat imports are forecast to grow moderately in 2005/06. While still hampered by AI, demand from the poultry industry is expected to lead to a moderate increase in corn imports to 1.1 million tons in 2005/06. Due relatively good prospects for the local rice crop, combined with an official policy of limiting rice imports, rice imports are forecast to remain at around 500,000 tons through 2005/06.

Includes PSD Changes: Yes
Includes Trade Matrix: No
Annual Report
Jakarta [ID1]
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EXECUTIVE SUMMARY

Wheat

Improving consumer-buying power is boosting demand for wheat-based products, such as instant noodles and bakery products. With the growing demand, mill operations are anticipated to approach 65 percent of capacity in 2005, continuing the moderate growth in the sector since 2000. With extraction rates (ranging according to the grain quality) from 70 percent to 74 percent, flour production is expected to reach 3.1 million tons in 2005/06. Imports are forecast to grow, reaching 4.6 million tons in 2005/06, including 150,000 tons of U.S. wheat. Local millers continue to complain about low quality and low priced flour imports from the United Arab Emirates, Australia, the European Union and other countries. The local millers allege that that such competition obliges them to slash margins to maintain market share and creates the incentive to buy lower quality wheat and produce lower quality flour. U.S. wheat sales are dominated by soft white and western white wheat types for special customized biscuit flour and hard red spring wheat type for blending with other wheat types to produce high protein flour. Australian wheat continues to dominate the market with nearly 50 percent share due to its competitive price, which can be up to 20 percent lower compared to U.S. wheat.

Corn

Corn production is forecast to grow slightly to 6.6 million tons in 2005/06 as newly reopened areas become more productive. Corn use is forecast to rebound only slowly, hindered by the continued prevalence of AI in the poultry sector. Anticipating slight growth in domestic output, combined with sluggish growth in local demand, imports are forecast to reach only 1.1 million tons in 2005/06. The local corn industry continues to source local corn first and then turn to the international market when domestic supplies dwindle. High freight rates and the inability/unwillingness of local buyers to finance Panamax sized vessels hinders U.S. competitiveness. Nonetheless, with the absence of Chinese corn in the market, opportunities for U.S. corn exist.

Rice

Despite delayed plantings and reports of flooding in some areas, rice production in 2005 is forecast to be off just slightly from the previous year. Except for some isolated non-producing areas, prices levels fell in March 2005, indicating relatively good supplies from the ongoing main crop harvest. The import ban will remain in effect through June 30, 2005. Prior to this date, the GOI will review supply and price conditions, and determine whether to extend the ban. Based on preliminary reports of the current harvest, and price declines, it is quite likely the ban will be extended, at least until the end of the second harvest (August/September), when approximately 80 percent of the crop will have been harvested. Currently, relatively high prices from suppliers and stricter enforcement at borders are hindering the incentive to import rice. With prospects for continued relatively good local production, stable local prices, and the apparent firm policy of not allowing the import ban to be circumvented, rice imports are forecast to reach only 500,000 tons annually through 2006.

WHEAT

Economic growth (5.13% in 2004 and 5.5% estimated for 2005) is fueling demand for wheat-based products and leading to slight growth in flour demand. Milling operations are currently reported to be running at 65 percent of the industry's total installed capacity. Plans to build a new mill in N. Sumatra have been shelved, but two of the mills have invested in new blending facilities to enhance output of higher quality flour. Reportedly, owners of the two largest flour mills recently acquired at least part-ownership in the third largest mill. The implications of this deal are still unclear, but in the least it will mean that one firm has only further concentrated its domination of flour distribution in eastern Indonesia. Furthermore, the merging of all these mills means that roughly 80 percent of Indonesia's import needs will be handled by one central desk.

Trade

Total imports (wheat and flour) are forecast to grow only slightly 2004/05 and 2005/06, remaining just slightly above 4.5 million tons. Major suppliers continue to be Australia and Canada. The competitiveness of U.S. wheat remains weak in 2004/05 (sales of approximately 150,000 tons) due to relatively high landed costs of U.S. wheat. Total exports (mainly pasta and couscous) have been increasing and estimated at nearly 100,000 tons annually. Main destinations are Malaysia (23%), Japan (13%), and Singapore (12%).

The local milling industry continues to allege that several countries are dumping flour into Indonesia. They continue to have a standing petition with the Dumping Committee (KADI-Komite Anti Dumping Indonesia) to take measures such as counter-veiling duties against the targeted countries.

Consumption

Bakery products continue to diversify, with new brands of instant noodles and modern bakeries increasingly present, and wider distribution of economical noodle/bakery outlets. Total wheat domestic consumption is estimated to increase from 4.4 million tons in 2004/05 and is forecast to 4.55 million tons in 2005/06. The noodle industry (wet, dry and instant) represents the largest single user for flour (nearly 60 percent); bakeries and the snack food industry consume another 30 percent and household use is estimated at about 10 percent. Based on the demand, the mills flour output consists of 75% high-protein flour (protein content >12%), with the balance being medium (10%-12%) and low protein flour (8%-9%).

Prices

Increasing wheat prices and soaring freight rates forced the mills to increase prices in early 2005. Distributor prices for Lencana Merah brand increased 2 percent from Rp. 76,650 or US$ 8.24/25 kg bag (January 2005) to Rp. 78,190 or US$ 8.41/25 kg bag (March 2005). Payung brand increased from Rp. 76,100 or US$ 8.18/25 kg bag to Rp. 77,640 or US$ 8.35/25 kg bag.

Average exchange rate in 2005 is Rp. 9,300/US$ 1.

Policy

The GOI requires that all wheat flour (import and local) meet a national standard for vitamin and mineral content. The government also protects the local industry by imposing 5 percent duty on imported flour.

CORN

Production

As a result of a slight expansion in area, corn production is estimated up slightly to 6.5 million tons in 2004/05. As newly reopened areas become more productive, output is forecast to growth further in 2005/06 to 6.6 million tons.

Yields remain low as certified/hybrid corn seed use accounts only around 20 percent of total corn planting areas. The high price of hybrid seeds (ranging from Rp. 20,000 or US$ 2.15/kilogram up to Rp. 30,000 or US$ 3.23/kilogram, compared to Rp. 1,750 or US$ 0.2/kilogram for local seeds) and lack of intensive farming capacity required for hybrid corn hamper increases in hybrid seed plantings. Quarantine procedures have reportedly caused difficulties in importing (parent) seeds and contribute to the lack of hybrid seed availability, which make the price of hybrid seeds high. Total planting areas using hybrid seeds declining from approximately 675,000 hectares (2004) to 550,000 hectares in 2005. Improper post harvest treatment and lack of storage/drying facilities are also constraints to improving corn quality and marketing.

Consumption

The animal feed industry consumes around 50 percent of all Indonesian corn. This percentage has declined due to the AI outbreak in early 2005. Feed industry demand is expected to increase somewhat in 2005/06 to 3.7 million tons. Imported corn is used primarily to produce poultry feed. Assuming that the AI outbreaks are only sporadic and remain contained, total compound feed production (including self mixing poultry feed) is forecast to rebound to around 7.4 million tons in 2005/06.

Trade

Given expectations for a slight increase in domestic production, but only sluggish demand growth, imports are forecast to remain stable at around 1.1 million tons in 2005/06.

U.S. prices in 2004/05 have so far not been competitive against local or supplies from other exporters. As a result, sales have been minimal.

Prices

In March 2005, farm gate prices of local corn in major producing areas (Lampung) ranged from Rp 1,300/kg (US$ 139.8/mt) to Rp. 1,400/kg (US$ 150.5/mt) in East Java. Prices range from Rp. 1,450/kg (US$ 155.9/mt) to Rp. 1,500/kg (US$ 161.3) delivered to feed mills in Jakarta.

Despite increasing feed ingredients (corn and protein meal) prices, average feed prices fell from reported levels the previous year. Local sources indicate price of Rp. 2,750/kg (broiler feed) in 2005 vs. Rp. 2,925/kg in 2004 and Rp. 1,750/kg (layer feed) in 2005 compared to Rp. 2,223/kg in 2004.

RICE, MILLED

Production

Despite reports of later plantings and some isolated flooding and other crop damage, the 2005 crop is still expected to reach 54 million tons (rough equiv.). With little potential for area expansion, and no yield growth expected, production is to remain about the same in 2006, barring any unusual rainfall patterns.

Consumption

Despite increasing population, rice consumption in Indonesia is relatively stable at 36 million tons per year. Diets continue to diversify and alternative staple foods (such as noodle/bakery, corn, cassava, and sago) continue to be important in many regions of Indonesia. In 2005, Bulog plans to provide subsidized rice to 8.6 million families; each eligible recipient can buy 20 kilograms of rice per month at Rp. 1,000/kilogram (US$ 11 cents/kilogram). The total budget allocated for this program is Rp. 5,445 trillion (US$ 585 million), which will be used to purchase and distribute around 2.0 million tons of rice. Distribution of rice rations to civil servants and military/police is being reconsidered.

Trade

Fairly high international prices, a higher duty, and strict enforcement of the rice import ban continues to discourage imports. Given these factors, plus prospects for a crop as good as last year's, Indonesian imports are forecast at 500,000 tons annually through 2006.

Stocks

Carry-over stocks are forecast to decline to 3.5 million tons by the end of 2005 and 3.4 million tons at the end of 2006. At the end of March, Bulog stock was 1.1 million tons milled rice equivalent. To fulfill its function, during 2005, Bulog plans to purchase approximately 3.14 million tons of dry paddy and 210,000 tons milled rice, or a total of 2.25 million tons milled rice from local farmers. Bulog will have to manage higher stock should the government and parliament agree that Bulog resume distribution of rice to civil servants and military/police.

To dampen prices in some localities, Bulog has sold 200,000 tons medium rice at Rp. 2,900/kilogram to Rp. 3,000/kilogram (US$ 31 cents to US$ 32 cents/kilogram). These "market operations" occurred primarily in Islands outside of Java (Riau, Jambi provinces), where rice prices had increased over 30%. Bulog also sold rice into the market in Batam (not a rice producing area) where the rice price reached Rp. 3,500/kg to Rp. 4,000/kg (US$ 38 cents to US$ 43 cents/kilogram).

Policy

The import ban will remain in effect through June 30, 2005. Prior to this date, the GOI will review supply and price conditions, and determine whether to extend the ban. Based on preliminary reports of the current harvest, and price declines, it is quite likely the ban will be extended, at least until the end of the second harvest (August/September), when approximately 80 percent of the crop will have been harvested.

Effective March 1, 2005 the GOI implemented new price policies for rice. The new policy increases the wet paddy price or GKP, eliminates the rice floor price structure, and sets a government purchase price. Domestic support in rice price is no longer in place, which means that there are no obligation for the government to buy rice from farmers should the farm gate prices fall below the set government purchase price. The new policy increases the government purchasing price of wet paddy from Rp. 1,230/kilogram to Rp. 1,330/kilogram. Prices of dry paddy are Rp. 1,765/kilogram at warehouse and Rp. 1,740/kilogram at milling facility. The government purchase price for milled rice remains at Rp. 2,790/kilogram.

Agricultural Inputs

Government continues to give a subsidy to farmers in the form of a price subsidy for fertilizer. This will in the long run be removed and allocated to other facilities. The total value of the subsidy was reduced from Rp. 1.7 trillion (US$ 183 million) in 2004 to Rp. 1.3 trillion (US$ 134 million) in 2005.

Rice Production: Area & Production by Region
First Estimate Figures by the Government of Indonesia for 2005*)

Province	Harvested Area (Ha)	Production (MT)	Yield (100Kg/Ha)
North Sumatra	823,497	3,409,400	41.40
South Sumatra	559,204	2,047,571	36.62
Sub Total: Sumatra	**2,992,715**	**12,020,232**	**40.16**
West Java	1,792,590	9,265,865	51.69
Central Java	1,579,986	8,268,231	52.33
East Java	1,691,292	9,004,942	53.24
Sub Total: Java	**5,560,463**	**28,959,695**	**52.08**
West Nusa Tenggara	322,079	1,453,954	45.14
Sub Total: Bali & Nusa Tenggara	**641,683**	**2,783,080**	**43.37**
West Kalimantan	373,938	1,103,665	29.51
South Kalimantan	444,240	1,528,392	34.40
Sub Total Kalimantan	**1,185,464**	**3,705,600**	**31.26**
Central Sulawesi	182,962	719,035	39.30
South Sulawesi	831,052	3,899,421	46.92
Sub Total Sulawesi	**1,223,901**	**5,485,344**	**44.82**
Other Provinces/Islands	49,563	162,735	32.83
TOTAL INDONESIA	**11,653,789**	**53,116,686**	**45.58**

Source: BPS - Statistics Indonesia
Note: *) GOI First Estimate 2005

SECTION II. STATISTICAL TABLES

WHEAT

Country	Indonesia					
Commodity	Wheat				(1000 HA)(1000 MT)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
Market Year Begin		07/2003		07/2004		07/2005
Area Harvested	0	0	0	0	0	0
Beginning Stocks	620	620	864	864	889	914
Production	0	0	0	0	0	0
TOTAL Mkt. Yr. Imports	4535	4535	4400	4550	0	4550
Jul-Jun Imports	4535	4535	4400	4550	0	4550
Jul-Jun Import U.S.	117	117	0	150	0	150
TOTAL SUPPLY	5155	5155	5264	5414	889	5464
TOTAL Mkt. Yr. Exports	91	91	75	100	0	100
Jul-Jun Exports	91	91	75	100	0	100
Feed Dom. Consumption	50	50	50	50	0	50
TOTAL Dom. Consumption	4200	4200	4300	4400	0	4550
Ending Stocks	864	864	889	914	0	814
TOTAL DISTRIBUTION	5155	5155	5264	5414	0	5464

Note: Table includes data for unprocessed wheat, wheat flour and pasta - converted into grain equivalent.

CORN

PSD Table						
Country	Indonesia					
Commodity	Corn				(1000 HA)(1000 MT)	
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
Market Year Begin		10/2003		10/2004		10/2005
Area Harvested	3200	3200	3300	3300	0	3300
Beginning Stocks	584	584	834	834	834	834
Production	6350	6350	6500	6500	0	6600
TOTAL Mkt. Yr. Imports	1350	1350	1100	1060	0	1100
Oct-Sep Imports	1350	1350	1100	1060	0	1100
Oct-Sep Import U.S.	198	198	0	200	0	200
TOTAL SUPPLY	8284	8284	8434	8394	834	8534
TOTAL Mkt. Yr. Exports	100	100	100	100	0	100
Oct-Sep Exports	100	100	100	100	0	100
Feed Dom. Consumption	3750	3750	3800	3500	0	3700
TOTAL Dom. Consumption	7350	7350	7500	7500	0	7600
Ending Stocks	834	834	834	834	0	834
TOTAL DISTRIBUTION	8284	8284	8434	8394	0	8534

Note: Feed domestic consumption includes requirements from the small-scale poultry industry producing self-mixing poultry feed (at an average of approximately 500,000 tons/year).

RICE, MILLED

PSD Table						
Country	Indonesia					
Commodity	Rice, Milled			(1000 HA)(1000 MT)		
	2003	Revised	2004	Estimate	2005	Forecast
	USDA Official	Post Estimate	USDA Official	Post Estimate	USDA Official	Post Estimate
Market Year Begin		01/2004		01/2005		01/2006
Area Harvested	11700	11700	11750	11650	0	11700
Beginning Stocks	4344	4344	4068	4068	4209	3548
Milled Production	35024	35024	34991	34830	0	34959
Rough Production	54301	54301	54250	54000	0	54200
MILLING RATE (.9999)	6450	6450	6450	6450	0	6450
TOTAL Imports	700	700	1000	500	0	500
Jan-Dec Imports	700	700	1000	500	0	500
Jan-Dec Import U.S.	0	0	0	0	0	0
TOTAL SUPPLY	40068	40068	40059	39398	4209	39007
TOTAL Exports	0	0	0	0	0	0
Jan-Dec Exports	0	0	0	0	0	0
TOTAL Dom. Consumption	36000	36000	35850	35850	0	35600
Ending Stocks	4068	4068	4209	3548	0	3407
TOTAL DISTRIBUTION	40068	40068	40059	39398	0	39007

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